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TO RUEHC/SECSTATE WASHDC PRIORITY 9841
INFO RUEHBK/AMEMBASSY BANGKOK PRIORITY 9903
RUEHBJ/AMEMBASSY BEIJING PRIORITY 9952
RUEHML/AMEMBASSY MANILA PRIORITY 3171
RUEHUL/AMEMBASSY SEOUL PRIORITY 2888
RUEHGP/AMEMBASSY SINGAPORE PRIORITY 3281
RUEAWJA/DEPT OF JUSTICE WASHINGTON DC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEHIN/AIT TAIPEI PRIORITY 4297
RHEHNSC/NSC WASHDC PRIORITY
RUEHCN/AMCONSUL CHENGDU 0994
RUEHGZ/AMCONSUL GUANGZHOU 0276
RUEHGH/AMCONSUL SHANGHAI
RUEHSH/AMCONSUL SHENYANG 3463

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STATE FOR EB/ESC/TFS S/CT IO/PHO EAP/CM EAP/K
TREASURY FOR LEVEY/GLASER/SHARMA
JUSTICE FOR DAAG BSWARTZ, AFLMS SHAYDEN

E.O. 12958: DECL: 12/15/2026
TAGS: [ECON](#) [EFIN](#) [KJUS](#) [PREL](#) [HK](#) [MC](#)
SUBJECT: (S) HKMA PLANS DELICENSING OF BDA SUBSIDIARY DELTA
ASIA CREDIT

Classified By: DPO Marlene Sakaue, reasons 1.4 b and d

1. (S) Summary. Hong Kong Monetary Authority (HKMA) Deputy Chief Executive William Ryback and Executive Director for Banking Supervision Arthur Yuen told the DPO on December 14 that HKMA plans to commence procedures to delicense Banco Delta Asia's Hong Kong deposit-taking subsidiary, Delta Asia Credit, in the next 60-90 days (February/March 2007), with projected completion of action by mid-year 2007. In alerting the USG, and requesting discretion, the HKMA wishes both to avoid conflicting actions that could embarrass the HKG and to give the USG an opportunity now to provide specific evidence about any Delta Asia Credit transactions that could affect planned HKMA action. End summary.

2. (S) Ryback explained that shortly after the USG designated Macau's Banco Delta Asia (BDA) as a primary money laundering concern, HKMA launched a review of BDA's Hong Kong subsidiary, Delta Asia Credit (DAC). HKMA has been managing this process quietly, without media attention. Describing the process, Ryback said that, while this type of review can take a long time in the U.S., the HKMA cannot wait much longer. Further, once a delicensing process is set in motion, the HKMA cannot reverse course. If there were good reasons to do so, however, HKMA could postpone commencement of action for a short while. HKMA currently plans to begin taking steps within 60 to 90 days, with completion of action expected in mid-year 2007.

3. (S) Ryback told us that the HKMA had recently completed its review of Delta Asia Credit, and HKMA's legal staff is currently assessing the case. While HKMA had spotted some "dumb, money-losing activities," it had not found any obvious illicit transactions. Ryback emphasized that, absent concrete evidence that meets required thresholds, HKMA, as a bank supervisor, can delicense an institution but is not in a position to shut it down. Given concerns about Delta Asia Credit's ability to continue operations and to pay off depositors, HKMA has decided to request certain remedies. In practical terms, there are two possible outcomes: the bank decides to change its structure and management; or delicensing occurs, with the entity paying off its deposits. Given uncertainty about the ultimate owner, the first is not likely. Thus, Delta Asia Credit will more likely be delicensed as a deposit-taking institution, but it could choose to continue operations as a money lender. (Note: Current HKG anti-money laundering laws do not cover money lenders. The HKG has told us that it plans to draft new legislation to cover additional sectors by late 2008.)

4. (S) Ryback reiterated that HKMA has managed this issue quietly, and HKMA has not yet notified Delta Asia Credit. HKMA requests USG discretion with regard to this matter. Ryback and Yuen explained that, in notifying the USG of its plans, HKMA's purpose was two-fold:

-- HKMA wants to avoid a scenario in which the HKMA commences action to delicense Delta Asia Credit and, for example, the USG conversely decides to recommend either unfreezing BDA's funds and/or returning BDA to Stanley Au's control.

-- HKMA has the authority to delicense Delta Asia Credit, but

is not planning any additional legal actions against the institution. If the USG has additional evidence to share with the Hong Kong Government (HKG) that could prove Delta Asia Credit was conducting illicit transactions on behalf of the North Korean Government, the USG should consider providing such information now, as the HKG could then consider additional legal action against Delta Asia Credit. Once the HKMA process gets underway, it cannot be reversed.
Cunningham